

Message Text

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SUBJ: VENEZUELAN AUTOMOTIVE INDUSTRY EXPANSION PROGRAM

REF: CARACAS 2519

1. AS PART OF AN ANNOUNCEMENT OF A PACKAGE OF ECONOMIC MEASURES WHICH INTER ALIA IMPACTS AGRICULTURAL COMMODITY PRODUCER AND CONSUMER PRICES, AND CHANGES IN MONETARY REGULATIONS (ALL REPORTED SEPT-), THE GOV HAS ANNOUNCED THAT IT WILL AUTHORIZE A 10PERCENT PRICE INCREASE TO THE CONSUMER ON PRICE REGULATED MODELS OF NATIONALLY ASSEMBLED AUTOMOBILES.

2. AN INCREASE ON PRICE-REGULATED CARS HAS BEEN LONG-SOUGHT BY LOCAL AUTO ASSEMBLERS. LOW AUTOMOBILE INDUSTRY EARNINGS WERE A MAJOR FACTOR IN THE REPORTEDLY LUKEWARM SPIRIT OF SOME ASSEMBLERS IN SUBMITTING PROPOSALS FOR PROJECTS TO LEAD TO VERTICAL INTEGRATION OF THEIR OPERATIONS TO INCREASE NATIONAL CONTENT IN LOCALLY-PRODUCED AUTOS(REF).

3. THE INCREASE ALLOWED ON PRICE-REGULATED AUTOS IS ACCOMPANIED BY A MANDATE FOR ASSEMBLERS TO INCREASE THE PRODUCTION OF THESE MODELS FROM FIFTY PERCENT TO SIXTY PERCENT OF TOTAL VEHICLE PRODUCTION VOLUME.

4. IN ADDITION TO GOV ACTION ON PRICES AND AUTOMOTIVE PRODUCTION MIX, THE GOV HAS ESTABLISHED A DIFFERENTIAL IMPORT DUTY ON IMPORTED PASSENGER CARS. HERETOFORE, ALL SUCH
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VEHICLE WERE SUBJECT TO A 350PERCENT A V C I F IMPORT DUTY.
AS OF THE EFFECTIVE DATE OF A NEW CECREE, ONLY CAR MODELS

NOT PRODUCED IN VENEZUELA WILL BE SUBJECT TO THE 350PERCENT ASSESSMENT. DUTY RATES ON LOCALLY-PRODUCED MODELS ARE TO BE REDUCED FROM 350PERCENT TO 120PERCENT, IN EFFECT, PLACING AN UPPER LIMIT ON THE PRICES OF OTHERWISE UNREGULATED MODELS. DUTIES ON "JEEP"TYPE UTILITY VEHICLES WILL DROP TO 50PERCENT, AND ON TRUCKS WEIGHING LESS THAN TWO M T TO 60PERCENT. ALTHOUGH THE DUTIES ON LARGER TRUCKS HAVE BEEN SET AT 40PERCENT, THESE DUTIES WILL CONTINUE TO BE WAIVED UNTIL SUCH TIME AS NATIONAL PRODUCTION IS ADEQUATE TO MEET DEMAND.

5. MR M KATZIN, GENERAL MANAGER OF CHRYSLER DE VENEZUELA, THE ONLY INDUSTRY SOURCE WHICH COULD BE REACHED FOR IMMEDIATE COMMENT, DESCRIBED THE NEW GOV AUTO INDUSTRY REGULATIONS AS "CATASTROPHIC". HE BROUGHT OUT THE GOV'S MODEL MIX STIPULATIONS, THE REDUCTION OF TARIFF PRODUCTION ON NON-REGULATED MODELS, AND A NEW EIGHTEEN-MONTH FINANCING TERM LIMITATION AS EFFECTIVELY NEGATING GAINS WHICH MIGHT HAVE BEEN REALIZED THRU INCREASED PRICE CEILINGS ON REGULATED CARS. MR KATZIN STATED THAT THE NET EFFECT OF THE GOV'S NEW AUTOMOTIVE POLICIES WILL BE TO LEAVE UNCHANGED CHRYSLER DE VENEZUELA'S PROSPECTS FOR A \$10 MILLION LOSS ON THIS YEAR'S OPERATIONS. IN FACT, DISRUPTIONS IN CHANGED PRODUCTION SCHEDULING, AND ANTICIPATED INVENTORY SURPLUSES OF NON-REGULATED MODEL CARS AND COMPONENTS MAY RESULT IN A DETERIORATION IN CHRYSLER'S FINANCIAL SITUATION. MR KATZIN STATED THAT THE GOV HISTORICALLY HAS BEEN UNWILLING TO HOLD BILATERAL TALKS ON ITS REGULATORY ACTIONS BEFORE OR AFTER THE FACT, AND CHRYSLER DE VENEZUELA'S SPOKESMAN WAS PESSIMISTIC AS TO A CHANGE IN THIS GOV ATTITUDE. FURTHER, KATZIN WAS CONCERNED BY THE GOV'S LACK OF DELIBECPT AND SERIOUS JUDGEMENT OF THE IMPLICATIONS OF THEIR REDUCTION OF PROTECTIVE TARIFFS. HE STATED THAT THIS PARTICULAR ACTION CALLS INTO QUESTION THE JUSTIFIABILITY OF MAKING ADDITIONAL INVESTMENT TO ENABLE THE GOV TO CARRY OUT ITS PLANS FOR FURTHER INTEGRATION OF THE LOCAL AUTO INDUSTRY.

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